Ministry of Finance of Georgia

General Government Debt Management Strategy 2024-2027

Tbilisi, 2024

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1. Introduction

The General Government Debt Management Strategy document covers the main areas and objectives of government debt management for 2024-2027 years. The strategy reflects the plan of the Government of Georgia, which should ensure the implementation of efficient debt management policies and achieve the objectives of debt management. The document also outlines the measures taken by the Government of Georgia to achieve the goals of the 2023-2026 strategy (Annex).

According to the "Law on Public Debt" of Georgia, borrowing on behalf of Georgia and issuing state guarantees under other loan agreements are undertaken by the Ministry of Finance, with the consent of the Government of Georgia and in consultation with the National Bank of Georgia. The government of Georgia obtains funds from bilateral and multilateral creditors[1] as well as from the issuance of government securities on international and domestic financial markets.

The government of Georgia borrows to finance investment projects and to support government-planned reforms.

It should be noted that according to the World Bank classification, Georgia is currently included in the group of upper middle-income countries[2]. Georgia is expected to have access to concessional funding[3] in the medium term, but in the long run, as the country's economy grows, access to concessional funding will gradually decline. In addition, it should be noted that in the background of global challenges, interest rates on foreign financing have increased significantly and it is expected to maintain the increased interest rates in the medium term. Therefore, local market instruments should gradually replace foreign financing. At the same time, it is important to increase country awareness in the international capital market for the diversification of access to financial resources.

The Government Debt Management Strategy is a public document that ensures the transparency of the government debt management policy and increases the awareness to creditors, investors, credit rating agencies and society on this issue.

[1] International Financial Institutions and Partner Countries.

[2] https://data.worldbank.org/country/georgia

[3] Concessional loans have lower interest rates compared to the market rates.

2. Strategy Scope and Objectives

The Government Debt Management Strategy Document covers the debt indicator, which includes:

1. The debt of the Government of Georgia, as defined by the Organic Law of Georgia on Economic Freedom. In particular, it covers a) Public Debt, as defined by the Law of Georgia on Public Debt, except for liabilities undertaken by the National Bank of Georgia, and b) debt undertaken by budgetary organizations, except the debt undertaken from budgetary organizations.

2. Public-private partnership (PPP) liabilities, which is the fair value [4]of the liabilities made within the framework of the basic principles of public-private partnership and the relevant projects of the criteria of PPP provided by “Law of Georgia on Public-Private Partnership”.

During the past three years, Georgia's economic was characterized by significant growth. According to the preliminary estimates, the real growth of the economy in 2023 was 7.5%. Along with the mentioned growth, other macroeconomic indicators of the country improved significantly. In particular, the budget deficit decreased from the pre-pandemic level of 9.2% to 2.5% at the end of 2023, and during the last two years the government debt maintained below the pre-pandemic level of 40.1%. The significant reduction of the debt level was caused mainly by the high economic growth and the positive dynamics of the exchange rate. However, the high rate of dollarization remains as a significant challenge, which makes government debt vulnerable to exchange rate fluctuations. Accordingly, the main task for the medium-term period is to optimize the debt portfolio and reduce currency risks.

Based on the above, the strategic directions of the government debt management strategy are the following:

1. Maintaining the government debt to GDP ratio at the safe level;

2. Increasing GEL-denominated debt share in the government debt portfolio;

3. Increasing the focus on development-oriented external loans;

4. Cost and risk optimization of the government total debt portfolio;

5. Treasury securities’ market development.

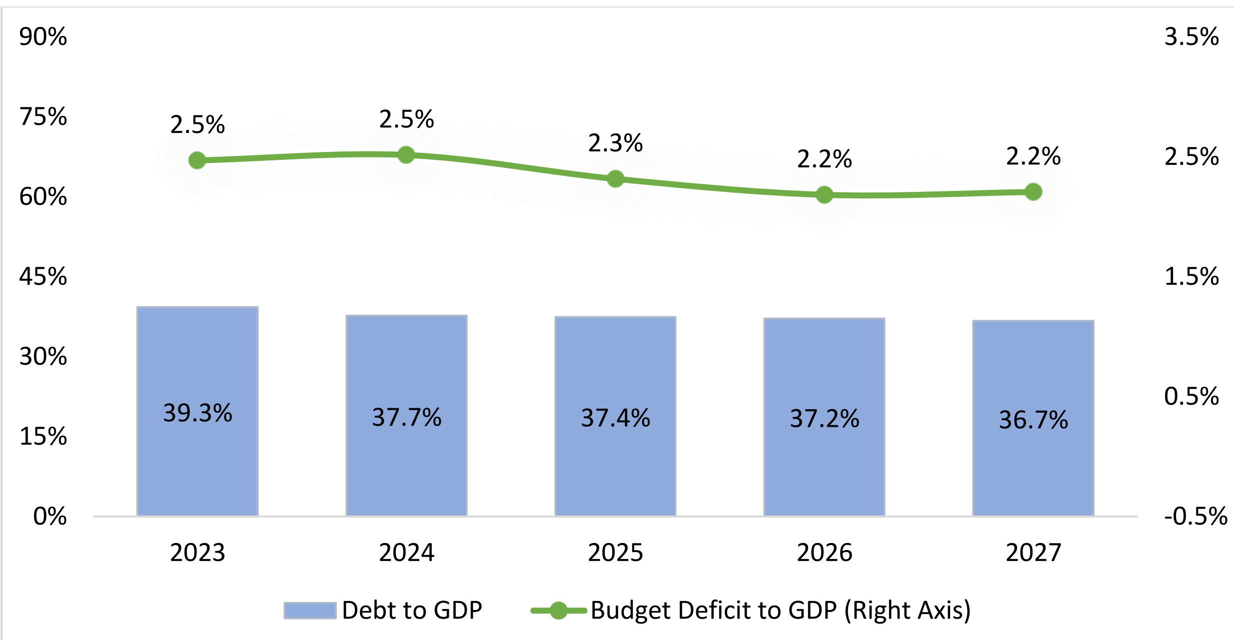
[4] This component is taken into consideration only in the calculation of the Debt-to-GDP ratio.

The strategy focuses on the five directions listed above, defines the target indicators for each direction, and sets the plan to achieve them.

Direction 1. Maintaining the Government Debt to GDP Ratio at the Safe Level

After the economic shock caused by the pandemic, the significant increase in the level of government debt created the need to define new strategic goals for debt management. Therefore, the first goal of the government's debt management strategy for 2022-2025 was to return the ratio of debt (including the PPP liabilities) to GDP to the pre-crisis level. As a result of rapid economic growth, the debt level returned to the pre-pandemic level in two years, the goal of the current government debt management strategy is to <u>maintain the ratio of the government debt to GDP within 40%.</u>

Figure 2.1 Projected dynamics of government debt and budget deficit to GDP ratios for 2023-2027 [5]



Source: Ministry of Finance of Georgia

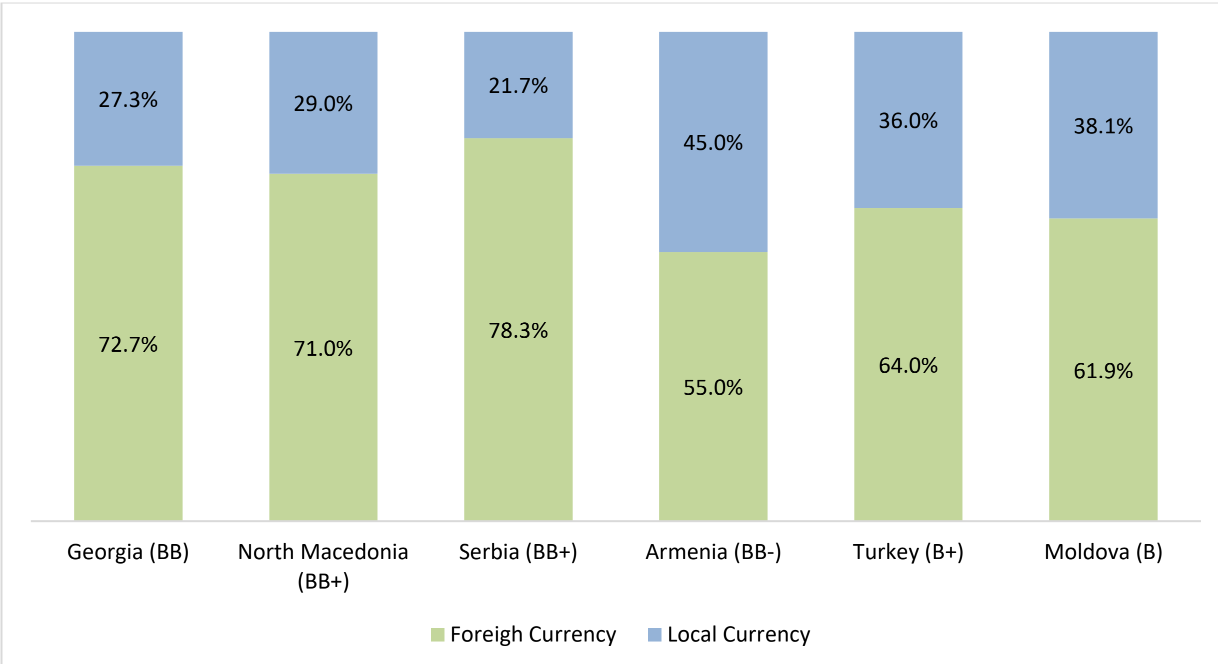
Direction 2. Increasing GEL-denominated Debt Share in the Government Debt Portfolio

The share of debt denominated in foreign currency is a main challenge for the management of the Georgian government's debt portfolio. At the end of 2023, the share of external debt made

[5] The government debt stock (including the PPP liabilities) is calculated as of December 2023, and GDP is a preliminary estimate.

up 73% of the total debt portfolio, which is one of the highestin the region and compared to other peer countries (Figure 2.2).

Figure 2.2 The share of local and foreign currency denominated government debt in the total debt portfolio, for different countries, as of the end of 2023



Source: Ministries of Finance of the respective countries

The government debt to GDP ratio is one of the main indicators affecting country's credit rating. Most of the developed countries have a high debt to GDP ratio, but due to the local currency denomination of a significant portion of the debt portfolios, the issue of their creditworthiness is not questionable.

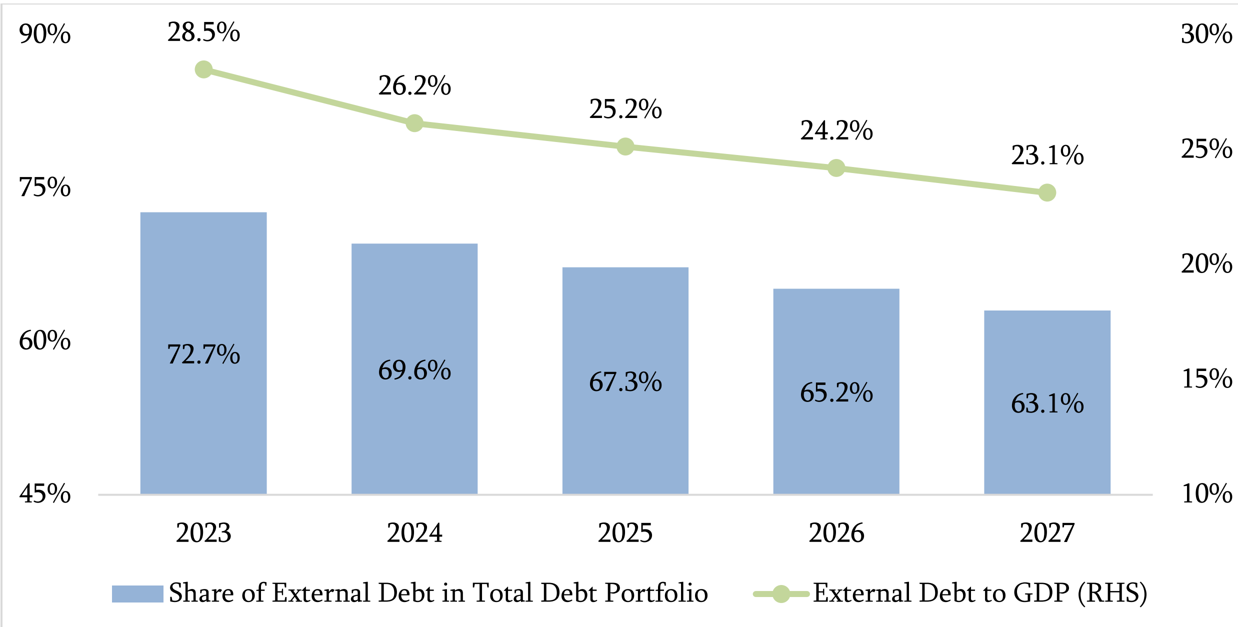
The high share of debt denominated in foreign currency in the government debt portfolio negatively affects the sovereign rating of the country and at the same time, hinders the effectiveness of the debt management policy.

Loans denominated in foreign currency are characterized by a relatively low interest rate. However, a "cheap" foreign currency loan is accompanied by additional risks arising from exchange rate fluctuations.

In this direction, the target indicators of the debt management strategy are a) maintenance of the external debt to GDP ratio below 30%, and b) reduction of the external debt share in total debt below 65%.

Given the above and the macroeconomic assumptions of the strategy (Table 3.2), the projected dynamics of the share of external debt in the portfolio and the external debt to GDP ratio are presented in the diagram below.

Figure 2.3 External debt share in the total debt portfolio and external debt to GDP ratio for 2023-2027



Source: Ministry of Finance of Georgia

Both targets largely depend on exchange rate fluctuations. In addition to the "natural" de-dollarization, the Ministry of Finance of Georgia, in order to support the dynamics of reducing the share of foreign debt in the government's debt portfolio, is considering hedging currency risks and thereby accelerating de-dollarization. For this purpose, the work on the cost-benefit analysis of hedging is in progress.

Direction 3. Increasing the Focus on the Development-oriented External Loans

The government of Georgia takes two types of loans from Multilateral and Bilateral creditors: first, investment loans, which are directly connected to certain projects, and second, reform-supporting loans such as Program Loans.

Due to the high share of foreign currency-denominated loans and debt Larization goal, the strategy‘s objective in this direction focuses on the loans having a high transformational effect. However, in the medium-term foreign currency loans will remain major source of funding gross financing needs. Nonetheless, the Ministry of Finance of Georgia is considering taking loans denominated in GEL from international development partners. Considering that the GEL is not characterized by liquidity in the international market, the mentioned instrument will be available at a relatively high interest rate, although it will make a significant contribution to the reduction of currency risks.

To achieve this strategic objective, a loan will be taken under the following principles:

For investment loans:

- **Investment loans will be taken mainly for large and complex[6] projects**. These are projects that require the support of development partners in the project implementation process to achieve a high standard of performance, and which are accompanied by expertise and knowledge sharing. The main benefit of taking an investment loan is not only the attraction of financial resources but also the support that should facilitate the project implementation with the relevant standards. Consequently, the government will limit the borrowing from external resources for new investment projects which can be implemented with the same success and efficiency using budget resources;
- **There must be a positive evaluation of project's efficiency under each investment loan**. New investment project loans can be initiated only for projects that have passed the pre-assessment stage according to the investment/capital project management methodology[7] and have received a positive decision from the Economic Council[8]. Therefore, it is a necessary precondition for the beneficiary ministry or municipality to have a public investment management system in place to initiate an investment loan. In addition, investment projects that are not subject to review by the rules defined by the investment/capital project management methodology, are carried out in agreement with the Management of the Ministry of Finance in accordance with the law;
- **In process of on-lending to state-owned enterprises, the enterprise's readiness to make reforms will be considered.** To meet the minimum standard of reform, a state-owned enterprise must express readiness: a) to implement corporate governance practices compatible with the OECD standard and b) to implement the comprehensive reform of state enterprises of Georgia;
- **For creditworthy enterprises, the government will gradually stop on-lending practices.** By doing so, the government will encourage companies to enter the private equity

[6] The ministry of finance, gradually, will elaborate measurable indicators to assess project complexity.

[7] https://matsne.gov.ge/ka/document/view/5724007?publication=0 Resolution # 65 of the Government of Georgia of February 16, 2023 "On the Approval of the Investment/Capital Project Management Methodology".

[8] The Commission established by the Government of Georgia's resolution, which makes decisions at various stages of an investment project according to the Resolution # 65 of the Government of Georgia of February 16, 2023 "On the Approval of the Investment/Capital Project Management Methodology".

market and attract financial resources independently. It is important that the investments required for the company are not part of the budget process and are independent of budgetary constraints, which in turn will increase investments in the country's economy; at the same time, the government will convert the loans already lent to companies into marketable instruments. That will increase the liquidity of the instruments issued by companies and create fiscal space.

For program loans:

- **From 2022, external borrowing is available mainly for significant transformational reforms.** Under such programs, a significant technical assistance is provided to support the implementation of reforms in line with best international practices. It is important to focus on and implement reforms with a highly transformative nature. Program loans will be taken only for significant government reforms, for which the outcome will be assessed in advance and approved by the government. For the program loans, an annual limit of $250 million is set.

Direction 4. Cost and Risk Optimization of the Government Total Debt Portfolio

This direction includes refinancing risk management issues for the total debt portfolio and important factors to consider when taking foreign loans.

Refinancing risk. To manage refinancing risk, it is important to maximize the average time to maturity of the portfolio and control the amount of debt maturing within a year relative to total debt in order to avoid peaks in the government debt repayment schedule. Therefore, to manage this risk, it is important that

- **The average time to maturity (ATM) of the government total debt portfolio** should not fall below 5.5 years, while this indicator for the domestic debt portfolio should be maintained at least 3 years;

- **The share of the debt maturing within 1** year should not exceed 15.0% of the total debt portfolio.

This direction concerning foreign loans means achieving the optimal level of costs and risks associated with a loan when selecting the terms of the loan. To achieve the optimal level, the key parameters considered are the following:

- **Grant Element.** The grant element is the difference between the present value of servicing the loan from development partners and the cost of servicing an alternative loan with market terms. The higher the grant element the more preferable the loan. When selecting the loan terms, priority is given to the option with a higher grant element, which in most cases is achieved by selecting the maximum maturity and grace period;

- **Loan currency.** It is expected that due to the process of economic and political convergence with the Eurozone, the increase in the share of Euro loans in the foreign debt portfolio will reduce the exchange rate risk. However, it should be noted that the share of the euro in the foreign debt portfolio has increased significantly, and based on the portfolio diversification goals, it is being considered to give other currencies a relative advantage. In addition, the Ministry of Finance is working to determine the optimal currency composition.
- **Type of interest rate.** Choosing between fixed and variable interest rates implies solving the dilemma of minimizing cost and refinancing risk. For interest rate risk management purposes, it is important that the share of fixed interest rate debt in the external debt portfolio not to fall below 50%. Therefore, relative advantage will be defined based on the new loan effect on the debt portfolio.
- **Strengthening the analytical measures of the government debt.** A main challenge in the analytical direction of government debt management is determining the maximum acceptable cost for hedging a loan taken in foreign currency, determining the optimal currency composition of the foreign debt portfolio using the cost and risk minimization method. Also, implementing a new methodology for debt sustainability analysis developed by the International Monetary Fund. In addition, in high interest rate environment it is even more important to create and maintain a portfolio with the optimal interest rate type. Based on the above, it is planned to complete a number of analytical works in 2024, the results of which will be reflected in the "Government Debt Management Strategy for 2025-2028" document, as well as in other reports related to the government debt.

Direction 5. Treasury Securities' Market Development.

The developed treasury securities market is fundamental for the country's capital market. It also plays an important role in shaping and broadening of the investor base. Government securities create a benchmark for other corporate securities, overall allowing corporate issuers to attract investors more effectively.

A developed market allows the government to respond quickly to financial needs and to manage cash efficiently.

The developed securities market is a critical factor in achieving the goal of debt portfolio Larization.

In this regard, the objectives of government debt management strategy are a) increase of the market liquidity, and b) diversification of the investor base.

To achieve the stated objectives, it is important to take the following steps:

- **To increase the market liquidity:** The increased volume of securities in circulation rises the investors' interest. Large market size reduces the risks for investors to enter and exit the market. In addition, the size of the securities market is one of the important criteria for local currency security inclusion in the international indices.
- **Strong benchmark.** The direction implies the gradual building of large volume benchmarks. The Ministry of Finance of Georgia started issuing benchmark bonds in 2018 and their initial target volume was defined at GEL 240 mln. At the end of the 2023, the volumes of the three largest benchmarks are 2 134 million GEL, 1 332 million GEL and 1 004 million GEL, which make up 54.9% of the treasury securities portfolio. For portfolio soundness, concentration on a few strong benchmarks is essential. It should be noted that the size of the market and the volume of the benchmark are one of the main criteria for Georgia to enter the international indices of government securities issued in local currency (JP Morgan GBI-EM, FTSE Frontier Emerging Markets Government Bond Index, etc.). Accordingly, by strengthening the portfolio, it will be possible to meet the mentioned criteria in the medium term.
- **Active use of liability management operations.** Creating large benchmarks, in turn, creates peaks in the service, which increases the risk of refinancing. Therefore, it is important to actively use liability management operations (buy-back and switch operations). In this direction, since the second half of 2023, the Ministry of Finance has been carrying out buy-back operations every month, and from 2024, it is planned to introduce switch operations and to actively use them together with buy-back operations to achieve effective management of liabilities in the future.
- **Secondary market development.** A developed secondary market is an important factor for investors. In order to support the above-mentioned, from November 2020, the Ministry of Finance, as a result of consultations with the International Monetary Fund and the World Bank, introduced a pilot program for primary dealers. Currently, two active and three inactive benchmarks are included in the mentioned pilot program. In accordance with the readiness of the market, which is assessed by a joint analysis of various criteria (activity in the primary market, turnover in the secondary market, frequency of pricing in the secondary market, the size of the spread, activity of non-bank investors and non-resident investors in the local market) in the medium term,

the pilot program of primary dealers will be transformed into a full system of primary dealers.

To diversify the investor base:

- **Increase the share of non-resident investors.** High share of non-resident investors will diversify the investor base, which will reduce the cost of GEL-denominated debt and increase the currency inflows in the country. For this purpose, the Ministry of Finance of Georgia developed the Investors Relation Strategy, which will help attract non-resident investors to the country through regular and effective communication with market participants (including periodic roadshows). At the same time, inclusion in the international index will increase the activity of non-resident investors in the local market. Considering the current size of the market, the target level of the share of non-resident investors is defined as 20-25%. Ensuring access to the market for non-resident investors is important for market efficiency, which the Ministry of Finance is constantly working on through regular roadshows and information sharing. As for the share of securities held by non-residents in a specific period, it depends on market conditions. Currently, the difference between the interest rates on the GEL in the local market and the rates of major currencies in the international markets is at a historical minimum, which makes investing in the GEL less attractive. Accordingly, the existing share of government securities held by non-resident investors compared to resident investor holdings reflects the market conditions. The long-term 20-25% target indicator is the level around which there is a necessary and sufficient space for cyclical fluctuations, so that this level decreases when spreads decrease and increases when they increase. If the long-term rate is too low, then the government securities market will have less ability to provide interest rate parity, and if the level is inadequately high, the volatility will be so high that it would threaten the stability of the domestic market.
- **Create a market for retail investors.** Creating a market for retail investors will help to increase public awareness of financial markets and to improve the level of financial education. In order to achieve this goal, the Ministry of Finance of Georgia will develop a strategy for the development of the retail securities market, which will outline the main actions that will be implemented to create and develop the retail securities market.

Considering all the above-mentioned strategic directions, the following tables provide risk indicators and relevant targets:

Table 2.1 Strategic Targets for 2027 [9]

Types of Risk	Indicators	2022 (Actual)	2023 (Actual)	2027 (Target)
Refinancing Risk	Debt maturing within 1 year (% of total) for total government debt	9.1%	9.5%	Max. 15.0%
	ATM for total government debt	7.4	7.3	Min. 5.5
	ATM for government domestic debt	2.8	2.9	Min. 3.0
Interest Rate Risk	Share of fixed interest external debt in government external debt	52.0%	50.1%	Min. 50.0%
Exchange Rate Risk	Share of government domestic debt into total government debt	25.0%	27.3%	Min. 35.0%
Solvency Risk	Government debt to GDP ratio	39.3%	39.3%	Max. 40.0%

Table 2.2 Strategic Targets for 2027

Indicators	2022 (Actual)	2023 (Actual)	2027 (Target)
Limit on External Program Loans*	239 mln USD	113 mln USD	250 mln USD
Conversion of on-lent resources into market instruments	-	-	900 mln GEL
PIM-based investment loans*	100%	100%	100%
Participation of non-resident investors in the local market	4.1%	2.9%	20%-25%[10]
Compliance with international index inclusion requirements	24.9%	52.9%	100%

*-Indicators are based on the operations carried out within a year

[9] These strategic directions assume that there will be no internal or external shocks during the strategy period, which will significantly change the macroeconomic environment and will not apply in the cases provided in Article 2, Paragraph 7 of the Organic Law of Georgia on Economic Freedom.

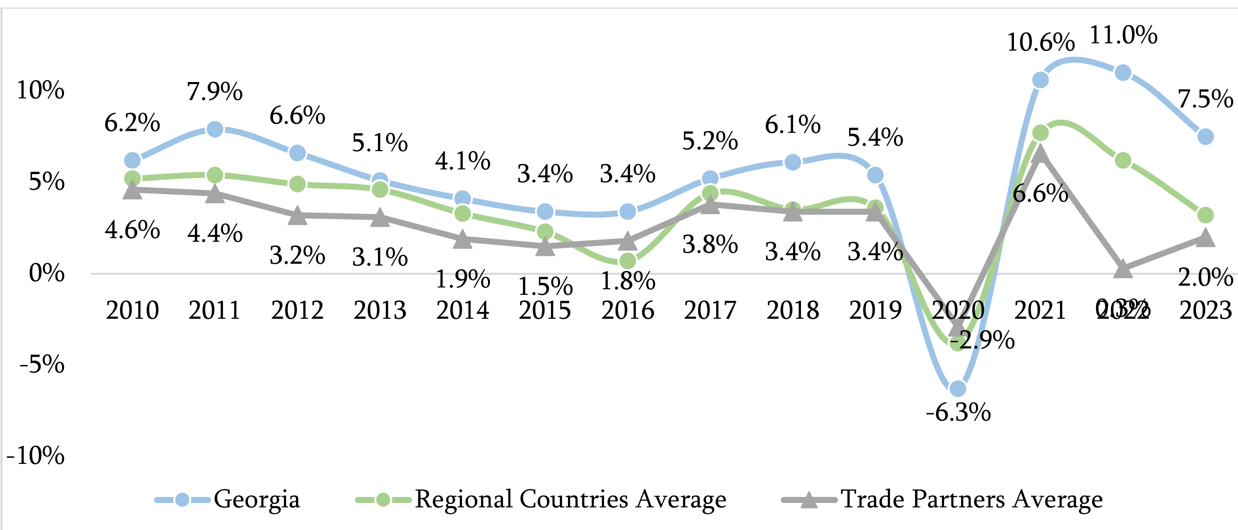
[10] Represents a long-term target indicator

3. Macroeconomic Outlook

After the pandemic, the economy began to recover rapidly from the beginning of 2021. Annual economic growth in 2021 and 2022 were 10.6% and 11.0%, respectively. The main contributor to the recovery in 2022 was tourism, which in nominal terms accounted for about 108% of the 2019 figure. Consumption has grown along with the foreign sector, which has played an important role in achieving double-digit economic growth in 2021, and in 2022, there was an increase in investment alongside tourism.

The high rate of economic recovery continued in 2023 as well, and despite the two-digit economic growth of the past two years, the forecast rate of economic growth for the current year is set at 7.5%.

Figure 3.1 Real Economic growth of Georgia, regional and trading partner [11] countries for 2010-2023

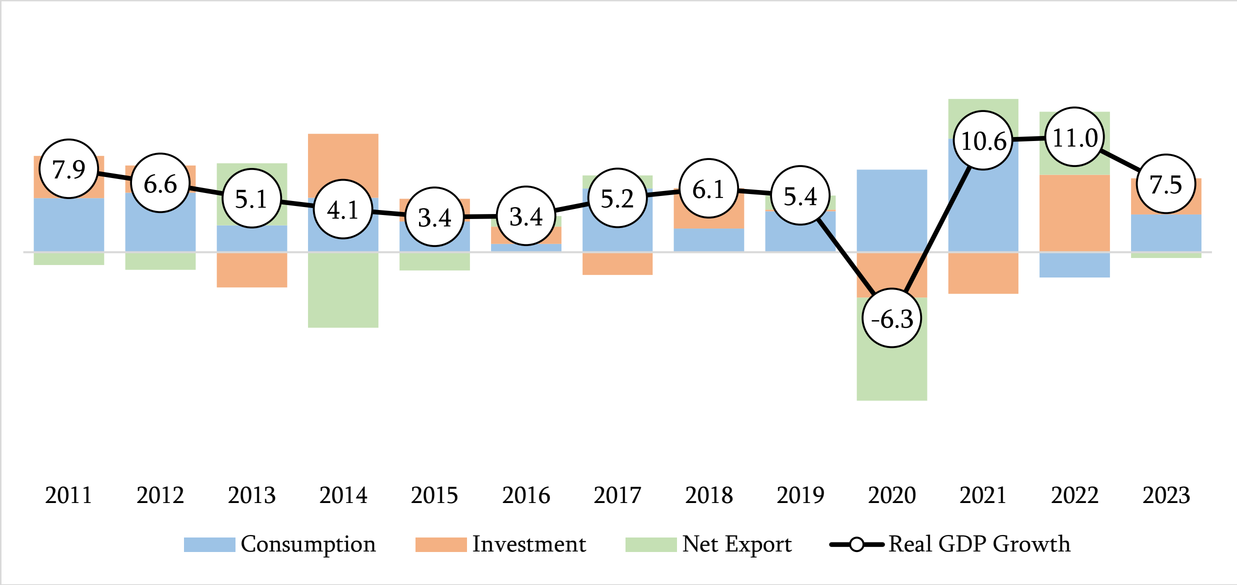


Source: National Statistics Office of Georgia, International Monetary Fund

One of the main contributors to economic growth this year was the tourism sector. As of 2023, the income received from tourism significantly exceeded the similar indicator of 2019 (by 26%). The positive effects of consumption and investments were also highlighted in the economic growth. The significant increase in investments is particularly noteworthy.

[11] Regional Countries: Azerbaijan, Turkey, Russia, Georgia, Armenia.
Trading Partners: : Azerbaijan, USA, Bulgaria, Eurozone, Turkey, Poland, Russia, Armenia, Ukraine, China.

Figure 3.2 Decomposition of economic growth 2011-2023.

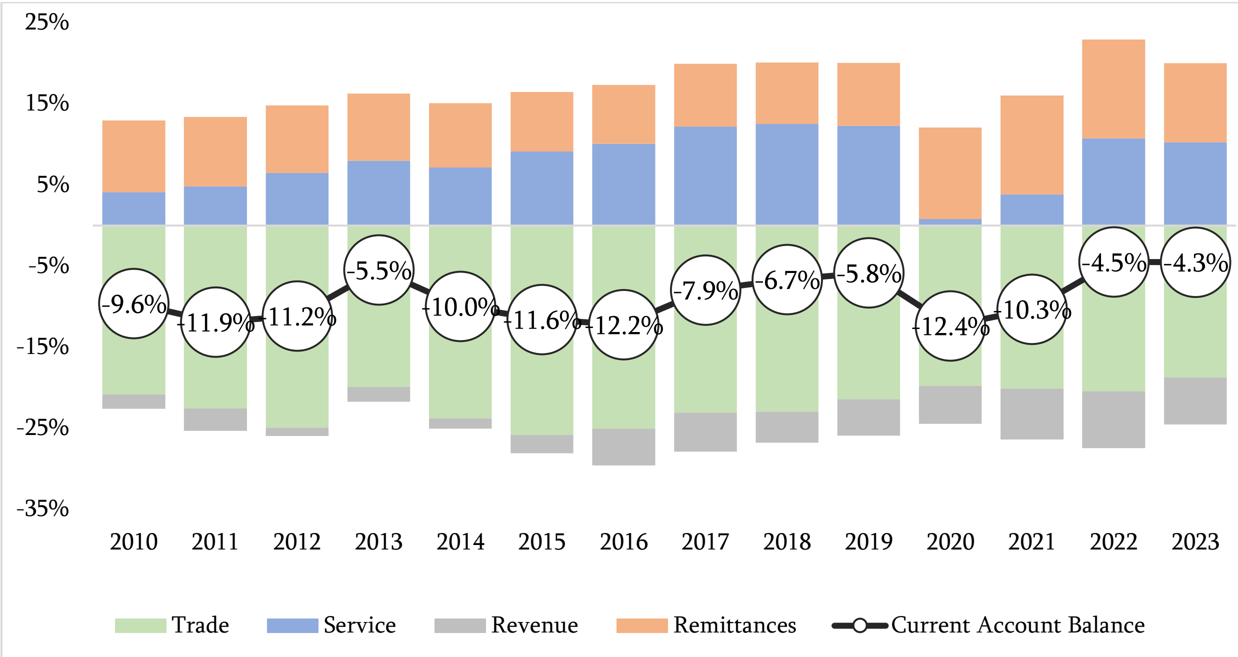


Source: National Statistics Service, forecast of the Ministry of Finance of Georgia

The budget deficit, which increased during the pandemic (9.2% of GDP in 2020), began to decrease with the recovery of the economy and decreased to 6.0% in 2021, and to 3% in 2022. Along with increased economic growth, improved fiscal parameters and effective distribution of expenditures aimed at responding to existing challenges made it possible to drastically reduce the deficit. By the end of 2023, the expected deficit is 2.5%.

In 2022, the current account deficit improved to 4.5% compared to 10.3% in 2021. This is due to the recovery of tourism, a significant increase in remittances and a sharp improvement in the trade balance. Against the backdrop of significant improvements in the same indicators and reduction in remittances, the current account deficit as amounted to 4.3% by the end of 2023.

Figure 3.3 Contribution of the current account 2010-2023.



Source: National Bank of Georgia, forecast of the Ministry of Finance of Georgia.

It should be noted that during the pandemic, the failure of global supply channels had a significant impact on the growth of global and then local inflation. From the beginning of 2021, inflation continued to grow and remained at a double-digit rate, this trend continued in 2022 as well. The mentioned situation was further aggravated by the worsening environment due to the Russia-Ukraine war, although inflation started to decrease from the second half, it fell below the target level in April 2023 and remains below the target level. According to the forecast of the National Bank, in the short term, inflation will remain below the target level, and in the medium term, it will return to the target level of 3%.

As for Georgia's sovereign ratings, after the start of the pandemic, the deterioration of economic indicators was reflected in the deterioration of the economic outlook. In 2020, Fitch downgraded Georgia's credit rating outlook to "BB" negative, however, in 2021, due to higher-than-expected economic growth and improved macroeconomic parameters, it fixed the rating again at "BB" stable level, and in 2023 improved it to "BB" positive. In June 2024, Fitch changed rating of Georgia to BB stable. In 2021, Standard & Poor's downgraded the country's sovereign rating to "BB" negative. It is worth noting the fact that they did not expect tourism to recover to the pre-pandemic level until 2024. However, because of the rapid improvement of the macroeconomic environment, in 2022, S&P upgraded the said rating again to the stable level of "BB", and as for 2023, due to the sound macroeconomic environment, rating of Georgia was kept at a „BB" stable level. In 2024, due to the positive dynamics in terms of economic growth and fiscal consolidation, S&P kept the rating at "BB" stable. As for the rating company Moody's, during the pandemic, Georgia's rating remained unchanged, at a stable level of "Ba2". However, after Russia's invasion of Ukraine and the sanctions imposed on Russia, due to the high dependence on the Russian economy and the risks arising from it, Moody's changed Georgia's "Ba2" stable outlook to "Ba2" negative in 2022 and in 2023 same rating was maintained. Moody’s upgraded Georgia’s sovereign rating from ,,Ba2” negative to ,,Ba2 stable in 2024 and the main factors of upgrade were high economic growth, resilience to shocks, strong institutional framework, fiscal stability and low inflation.

Table 3.1 Sovereign credit ratings of Georgia assessed by rating agencies for 2019-2024

Credit Rating Agencies	2019	2020	2021	2022	2023	2024
Fitch	BB Stable	BB Negative	BB Stable	BB Stable	BB Positive	BB Stable
Standard & Poor's	BB Stable	BB Stable	BB Negative	BB Stable	BB Stable	BB Stable
Moody's	Ba2 Stable	Ba2 Stable	Ba2 Stable	Ba2 Negative	Ba2 Negative	Ba2 Stable

Source: Ministry of Finance of Georgia

The target indicators of the government's debt management strategy in the medium and long term are based on the following fiscal and macroeconomic assumptions:

Table 3.2 Projected data of macroeconomic indicators for 2023-2027

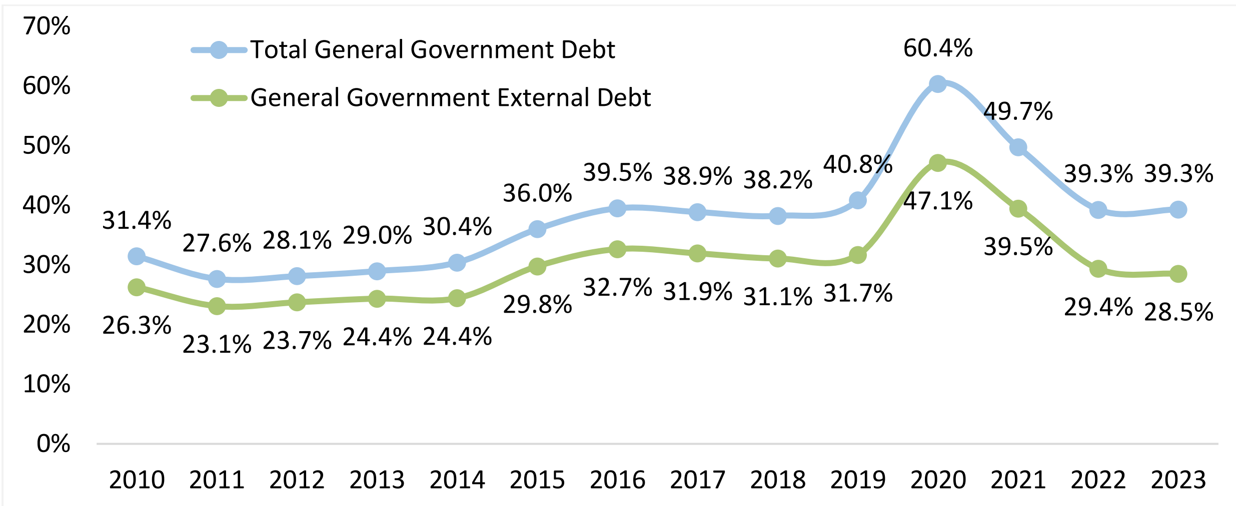
Indicators (mln GEL)	2023	2024	2025	2026	2027
Common Budget Revenues	22 124	24 398	26 124	27 788	29 868
Common Budget Expenses	17 577	20 071	21 792	23 558	25 520
Net growth of Non-Financial Assets	6 436	6 557	6 380	6 320	6 640
Net growth of Financial Assets	94	-43	130	130	135
Modified Budget	-1 982	-2 187	-2 178	-2 220	-2 427
Gross Financing Needs	-4 580	-5 364	-5 131	-6 390	-6 110
Net growth of Domestic Debt	1 459	1 380	1 485	1 585	1 685
Net growth of External Debt	1 101	458	680	620	680
Borrowing	2 146	1 839	2 100	3 400	2 150
Redemption	-1 045	-1 381	-1 420	-2 780	-1 470
Government Gross Debt	31 540	32 752	35 179	37 798	40 368
Nominal GDP	80 246	86 951	94 038	101 702	109 991
Real GDP Growth	7.50%	5.20%	5.00%	5.00%	5.00%
Change in GDP Deflator	3.10%	3.00%	3.00%	3.00%	3.00%
Percent to GDP					
Modified Deficit	-2.5%	-2.5%	-2.3%	-2.2%	-2.2%
Gross Financing Needs	-5.7%	-6.2%	-5.5%	-6.3%	-5.6%
Government Gross Debt	39.3%	37.7%	37.4%	37.2%	36.7%

Source: Ministry of Finance of Georgia

4. General Government Debt Portfolio Description

By the end of 2023, Georgia's general government debt amounted to 31,540 million GEL. Out of which foreign currency denominated debt amounts to 22,876 million GEL, local currency denominated debt amounts to 8,606[12] million GEL and 57.5 million GEL is PPP liability. As a result of the economic recovery in 2022-2023, the debt to GDP ratio of 2023 is 39.3%, of which foreign currency denominated debt to GDP ratio constitutes 28.5%.

Figure 4.1 *General Government Debt Dynamics (% of GDP)[13] for 2010-2023*

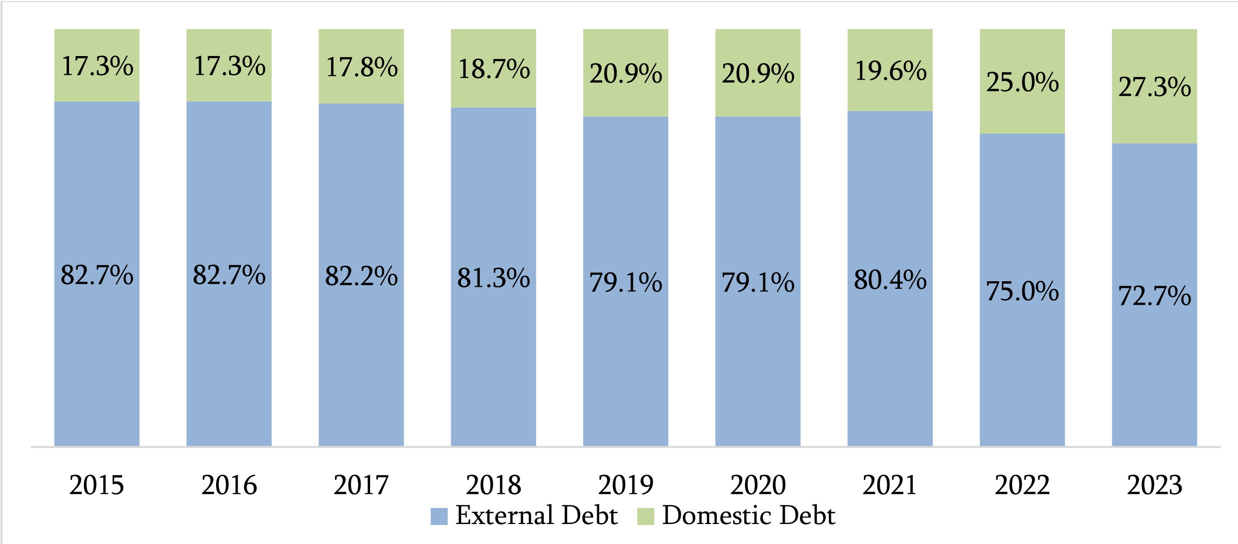


Source*: Ministry of Finance of Georgia*

As of the end of 2022, 75% of the government total debt portfolio was denominated in foreign currency. As of the end of 2023, this indicator decreases to 72.7%. Despite the downward trend, the above-mentioned indicator remains at a high level.

[12] Includes debt of budgetary organizations, except the debt taken from the budgetary organizations.
[13] Including the PPP liabilities

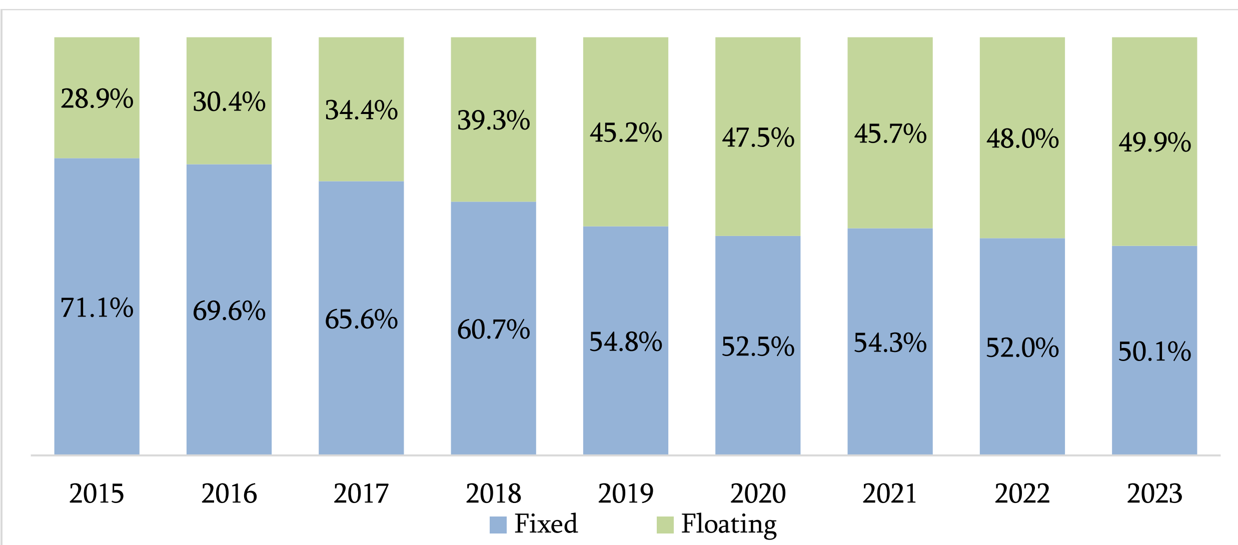
Figure 4.2 *General Government Debt Portfolio Structure for 2015-2023*



Source: *Ministry of Finance of Georgia*

By the end of 2023, 63.8% of the government debt portfolio (excluding the PPP liabilities) bears a fixed interest rate. For the government foreign debt portfolio, the mentioned indicator is 50.1%.

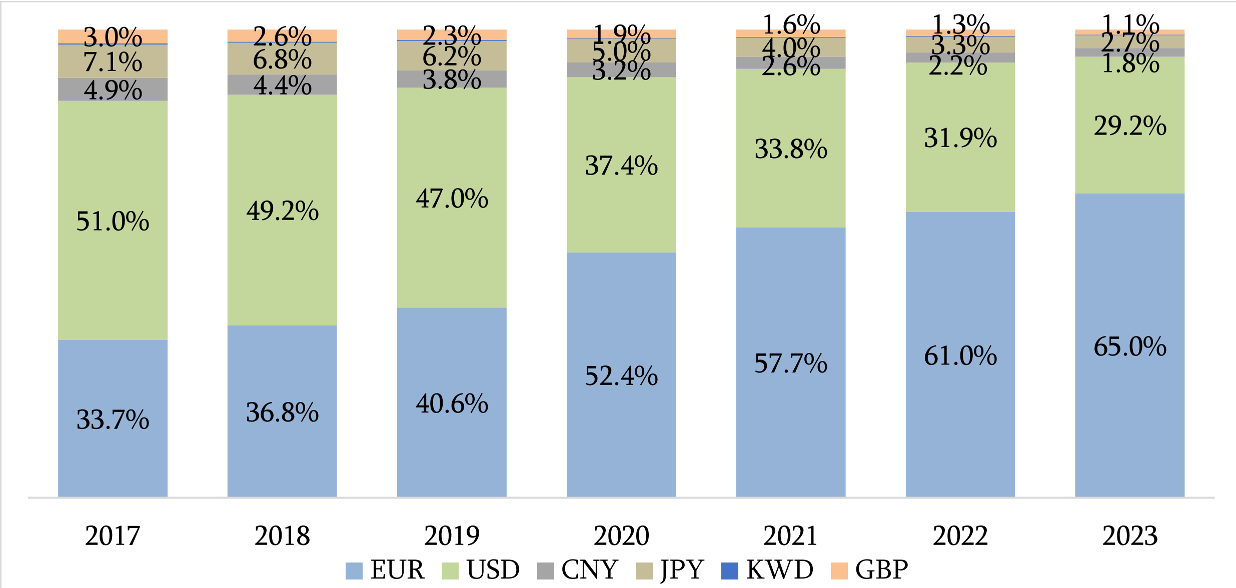
Figure 4.3 *General Government External Debt Portfolio Structure by Interest Rate Type for 2015-2023*



Source: *Ministry of Finance of Georgia*

By the end of 2023, 29.2% of the government debt portfolio is denominated in USD. It is notable, that the share of the USD denominated debt has been declining due to the increase in the shares of debt denominated in EUR (65%). The remaining 5.8% of the portfolio is denominated in other currencies - JPY, KWD, CNY and GBP.

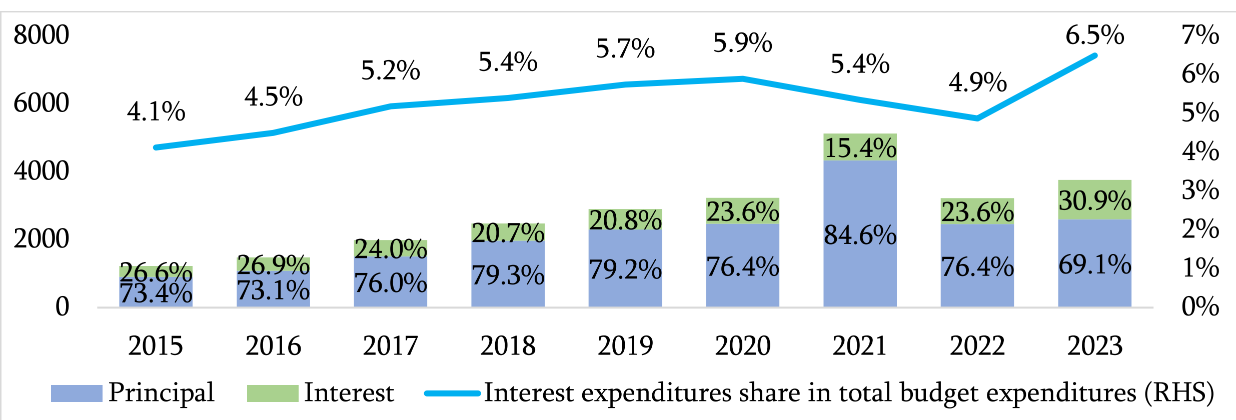
Figure 4.4 *Currency Composition of the General Government External Debt Portfolio for 2017-2023*



Source*: Ministry of Finance of Georgia*

While taking new loans, existing debt portfolio service is taken into account. The loans comprising the external debt portfolio usually have long-term repayment schedule and long grace period, which ensures the equal distribution of debt service. Therefore, they donot impose the significant pressure on budgetary expenditures, neither the expenses are concentrated on short-term period. By the end of 2023, the interest rate expenditures of the general government debt portfolio (excluding the PPP liabilities) amounted to 6.5% of the total budget expenditures.

Figure 4.5 *General Government Debt Service for 2015-2023 (mln GEL)*



Source: *Ministry of Finance of Georgia, National Statistics Office of Georgia*

For 2023, the weighted average interest rate of the government debt portfolio (excluding the PPP liabilities) increased in 2023 compared to 2022 and amounted to 4.95%. This indicator is 9.06% for the domestic debt portfolio, and 3.40% for the foreign debt portfolio. The increase in the weighted average interest rates of the government debt portfolio is mainly due to the sharp increase in the interest rates on the local and international markets. The weighted average interest rate on the newly borrowed local currency debt throughout 2023 amounted to 8.65%, while the same indicator for foreign currency denominated debt amounted to 4.49%.

Table 4.1 *Weighted Average Interest Rates on the General Government Domestic and External Debt Portfolios*

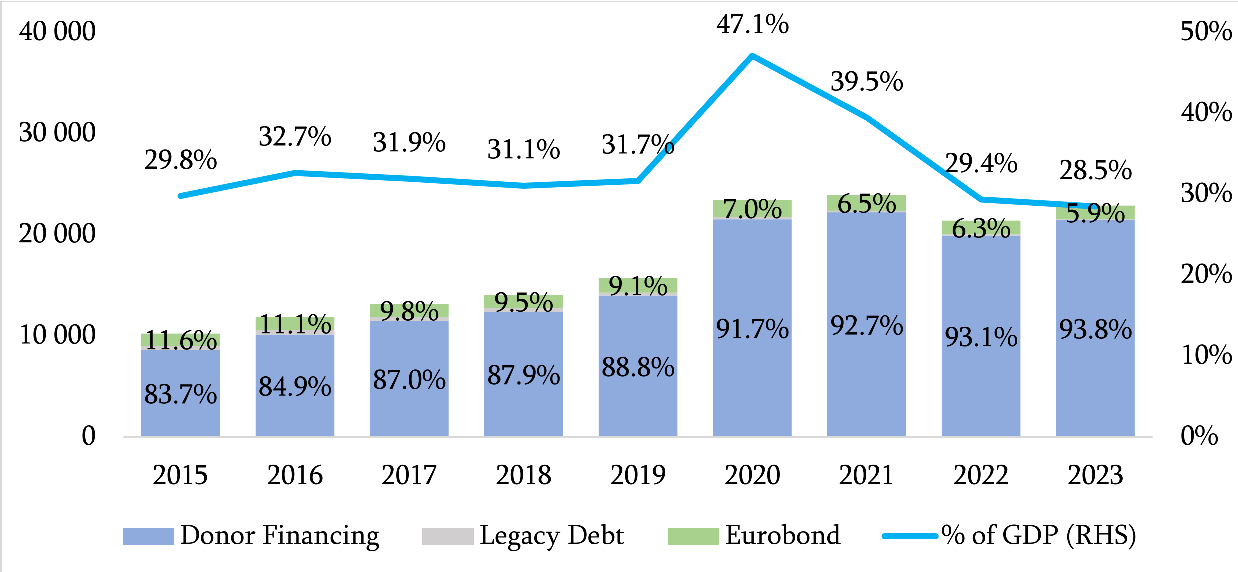
	Weighted Average Interest Rate of the Portfolio		Weighted Average Interest Rate of Last Year	
	2022	2023	2022	2023
Domestic Debt	**9.20%**	**9.06%**	**9.76%**	**8.65%**
T-Bills	10.04%	9.44%	10.15%	9.46%
T-Bonds	9.16%	9.04%	9.69%	8.47%
Government Bonds	9.04%	9.11%	9.54%	9.41%
External Debt	**2.23%**	**3.40%**	**2.05%**	**4.49%**
Donor Financing	2.18%	3.44%	2.05%	4.49%
Legacy Debt	3.58%	3.57%	-	-
Eurobond	2.75%	2.75%	-	-

Source: *Ministry of Finance of Georgia*

By the end of 2023, 93.8% of the government external debt is composed of the funds attracted from the multilateral and bilateral creditors. Most of these loans have concessional terms. Eurobond represents 5.9% of the foreign debt portfolio, while the remaining 0.4% is "Legacy Debt"[14], which will be fully repaid by 2025.

[14] Existing and other restructured loans to the former republics of the USSR.

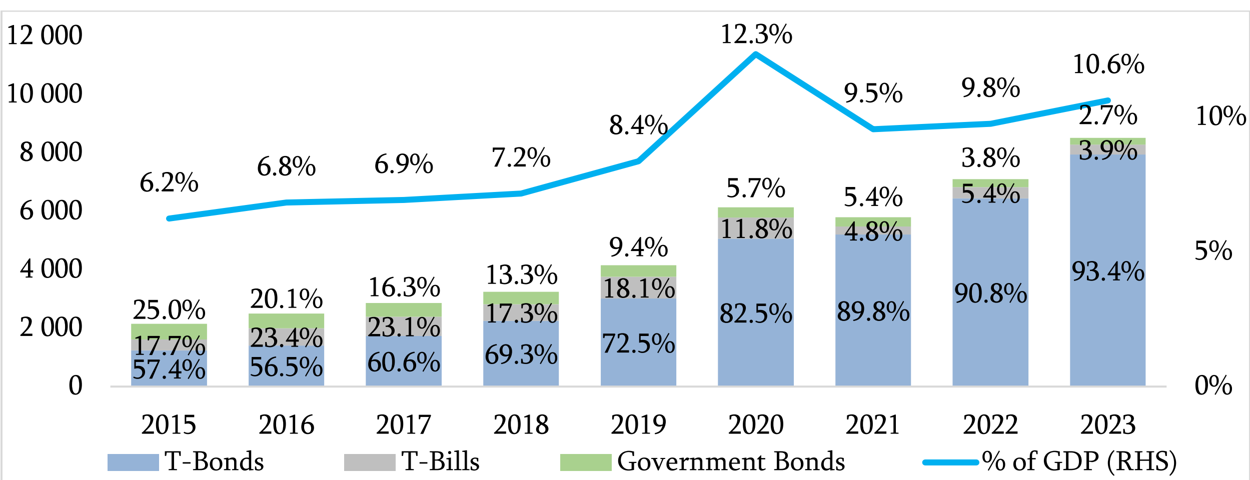
Figure 4.6 General Government External Debt Structure for 2015-2023 (mln GEL)



Source: Ministry of Finance of Georgia

The general government domestic debt has increasing trend in recent years. By the end of 2022, domestic debt to GDP ratio amounted to 9.8%, and for 2023, it is 10.6%. Significant portion of domestic debt constitutes of treasury bonds: 2-year, 5-year, 10-year and 11-year treasury securities issued on behalf of the government. At the end of 2023, treasury bonds hold 93.4% of the portfolio. As for treasury bills, which include 6 and 12 month securities, the mentioned indicator represents 3.9% of the portfolio. Government bonds (the government debt to the National Bank) represent the remaining share of the domestic debt portfolio, 2.7%.

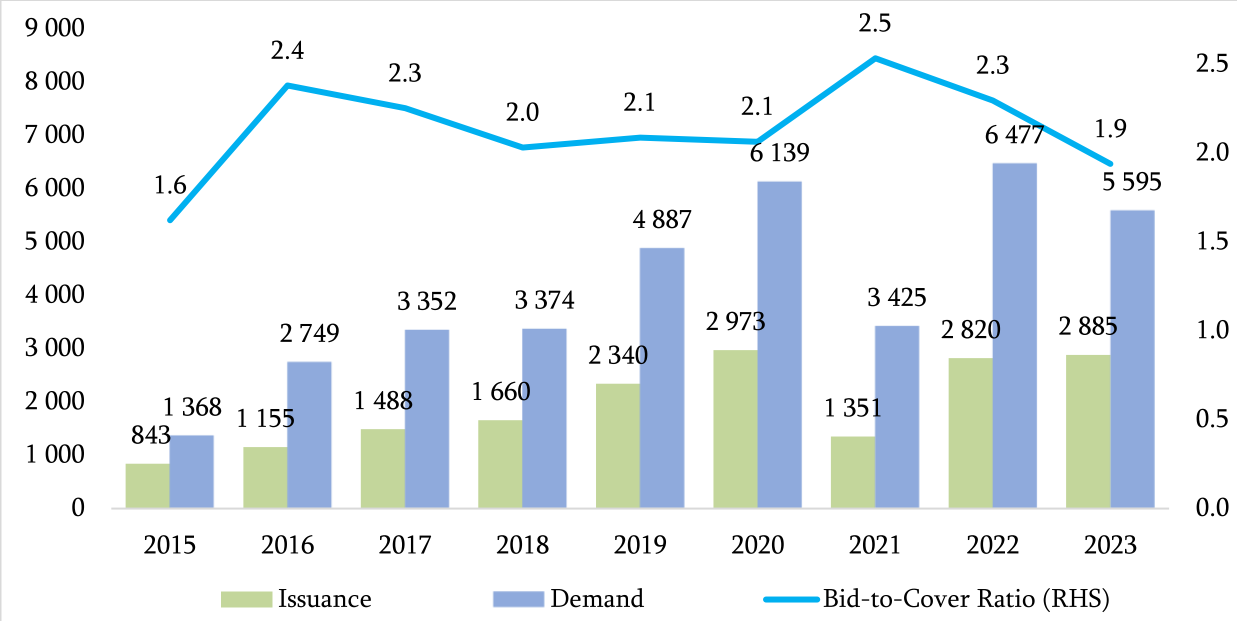
Figure 4.7 General Government Domestic Debt Portfolio Structure for 2015-2023



Source: Ministry of Finance of Georgia, National Statistics Office of Georgia

Despite the increasing issuance of government securities, demand significantly exceeds issue sizes. Bid-to-cover ratio amounted to 2.3 for 2022 and 1.9 for 2023.

Figure 4.8 Domestic *Debt Issuance and Demand for 2015-2023 (mln GEL)*



Source: *Ministry of Finance of Georgia*

Annex

The following key actions have been taken to achieve the objectives defined under General Government Debt Management Strategy 2023-2026:

- **Development-oriented loans:** 7 loan agreements were signed during 2023, from which two loans represented budget support, and the remaining five were investment loans. From investment loans, four projects were selected based on the Public Investment Management Methodology (PIM), and one project was selected by the Management of Ministry of Finance of Georgia;
- **Enhancement of Primary Dealers Pilot Program:** The Primary Dealers Pilot Program, which included 5-year Treasuries, was expanded to include 2-year Treasuries in November 2022. Also, from January 1, 2023, 10-year treasury bonds originally issued in January 2018 have been added to the program;
- **Development of investor relations strategy:** The Ministry of Finance of Georgia developed and published an investor relations strategy, which aims to create a framework for regular communication with investors. The document includes the main principles of relations with investors and measures to be implemented in order to improve investors' relations;
- **Strong benchmark:** The size of the benchmark is one of the main criteria for Georgia to be included in the international index. For this purpose, it is planned to increase the size of benchmark securities. Based on the above, from November 2022, the Ministry of Finance of Georgia has reopened the issuance of the 10-year benchmark bond, which was originally issued in January 2018 and at the end of 2023 its size has exceeded GEL 2 bln;
- **Establishment of retail securities market:** International best practices are being studied for creating a retail securities market. In 2023, a working meeting was held between the Ministry of Finance of Georgia and the Hungarian Debt Management Office and Hungarian practice was shared. By 2024, a working visit to the countries with successful practices and then establishing the strategy for the development of the retail securities market are planned.